

THE FUTURE OF THE AUSTRALIA-JAPAN RELATIONSHIP¹

Peter Drysdale

Australian National University

Some forty years ago, Australia and Japan were in the process of negotiating their historic Agreement on Commerce, which was ratified in 1957. The Agreement was a watershed in relations between the two countries. It set in place a relationship which gave to Japan an entirely new status in its trade with Australia, one which it had not previously enjoyed and one which would profoundly affect all aspects of the relationship between the two countries in future years. It gave Australia the promise of access to what became the most rapidly expanding raw materials market in the world, with Japan poised on the threshold of an historical, and to that point unique, industrial expansion.

Antecedents

Almost forty years ago I wrote my first essay on the Australia-Japan relationship - as an undergraduate student in international economics - reflecting on the promise that it offered to Australia, despite the deeply-felt anxieties that remained, only a decade after the Pacific War, about embracing a full and equal partnership with Japan.

That was another era.

Japan was an economy just twice as large, in terms of the value of its gross output, as Australia. And Australia's people, in terms of measured real per capita incomes, were four times as well off in material terms as their Japanese contemporaries.

The author is a Professor of Economics, Australia-Japan Research Centre, Research School of Pacific and Asian Studies, The Australian National University. This paper is based on a keynote speech of The Center for Australian Studies Symposium, "New Horizons of Japan Australia Economic Relations," which was held on November 29, 1996 at Otomon Gakuin University. This paper will be published later this year by the Australia-Japan Research Centre, ANU in its review of the Australia-Japan relationship forty years after the signing of the Japan-Australia Agreement on Commerce, July 1957.

¹ The data and statistical analysis in this paper were prepared by Dr Weiguo Lu at the International Economic Databank at the Australian National University. Research assistance was provided by Michelle Sumner. Marilyn Popp and Minni Reis processed the manuscript expertly. I am very grateful to both for their help in completing the paper. I alone, of course, am responsible for any errors or failings.

The development of the partnership with Australia played no small part in completely transforming those circumstances, as the strategic raw materials and energy trade relationship helped to sustain, and continues to sustain, Japan's industrial growth and strength.

So it is no exaggeration to say that the partnership between Australia and Japan has more than fulfilled the promise that forty years ago led to the successful conclusion of the Agreement on Commerce.

Its success has completely transformed the relationship between our two countries and its potential so that, when we look ahead, we must judge its future by quite different yardsticks from those we used in the past.

There has been a huge transformation in the structure of our economies and societies. These developments have drawn us closer together, into a more strongly complementary set of economic relationships that extend well beyond commodity trade into manufacturing, services, investment, finance and economic diplomacy. The Asia Pacific region is now the central element in both countries' foreign economic relations and foreign diplomacy, as we seek to secure our interests in East Asia within the broader context of powerful trans-Pacific ties and multilateral trading goals and open up a new relationship with Europe. The end of the Cold War has concentrated our efforts on confidence-building dialogues and the establishment of a new framework for political security in Asia and the Pacific.

The result is a broader and deeper relationship; one that is richer and more diverse; and one that is infinitely more familiar and intimate than ever I dared to dream over forty years ago. While Japan is now a much bigger and richer economy, and our history and geography have shaped in Australia and Japan two remarkably different cultures and societies, there is a strong sense of equality in the relationship - a quality which was not always present in perceptions at either end at some times in the past.

Australians are more comfortable in relationships such as we now have between Australia and Japan because of the nature of their culture and social instincts - relationships built upon a confident sense of equality in dealings, whether in sorting out problems as the need arises from time to time or establishing an easy sense of partnership in working together in common purpose.

Japan is no longer a country on the threshold of its industrial future, as remarked in our Centre's report on the relationship in 1989. It is already one of the world's largest and richest industrial countries; it has a growing capacity for political influence; and it seeks the measure of its economic and political power.

Australia is no longer a stranger in Asia and the Pacific, importantly because of the established economic relationship with Japan and the economic and political links and interests

that it has developed across East Asia and the Pacific.

The qualitative change in the Australia-Japan relationship has been enormous. A generation ago, two growing, small-to-middle powers managed to build a prosperous and mutually advantageous partnership in favourable economic circumstances. Japan is now a power with global reach: its role is pivotal in the restructuring of the regional and international economic system and in the political and strategic system of Asia and the Pacific.

Of all the relationships Australia has with countries in East Asia, that with Japan is undoubtedly the largest and most central to her regional economic and political interests. It is the structure of interests in the relationship, its scale and the investment of human capacities that have been put into it, which constitute the huge resource which can be brought to bear on our dealings in economic, political and social affairs and contribute to the foundations of a partnership for progress in our relationship in the future. This is as true for the management of our foreign economic and diplomatic interests in the region and the world as it is for the fulfilment of our national economic, security and social development ambitions through bilateral exchange.

The Task

This paper seeks to reflect upon the lessons that can be learned from the partnership that has developed between our two countries and for its prospects as we define our future in world and regional economic and political affairs.

The aim is simply to establish some of the priorities which will set the perimeters for greater or lesser success in managing the trade, investment and other links between the two countries and all of the areas in which they have a strong common interest.

The strength of, and the gains from, our relationship in the future will depend importantly on successful cooperation in three key areas:

- securing our economic and political future in Asia and the Pacific
- entrenching the principles, values and norms of international behaviour required for active cooperation among a plurality of nations and cultures in the Asia Pacific community
- investing in the intellectual and human capital base to underpin the future relationship.

Let me say at the outset that I do not believe that we can afford to be sanguine about success in any of these three areas, for reasons that will become clear as I proceed.

Reflecting on where our relationship has come from brings home what a giant step forward the conclusion of the Australia-Japan Agreement of 1957 really was. The vision which inspired

it was rare and its realisation was by no means inevitable. The hindsight of history frequently encourages a deterministic view of events and the role of the men and women who shape them but the qualities of vision and purpose required to fashion the changes in policies and international relations between Australia and Japan in the late 1950s, are rarely inevitable.

The central message is that there are deep changes underway in the relationship between Australia and Japan, the implications of which have yet to be fully assessed. We have managed such changes in the past - with a remarkable degree of success. But we would be unwise and incautious to let our genuine sense of security and satisfaction in the achievements of the past encourage overly comfortable assumptions of continuity of past trends or past structures or relieve us of the burden and responsibility of careful assessment of how we shall need to respond to, and to shape, the changes that are bound to redefine the relationship in the future.

Need for Re-assessment

This is a very preliminary attempt to raise some of the questions we need to think about a little more in understanding the future of the relationship.

First, there are the shared interests we have in securing our future in East Asia and the Pacific and projecting Asia Pacific interests in the international community.

The growth of Australia's East Asian economic links is not a new phenomenon, but it has accelerated vastly over the last 10-15 years. The long history of links with Japan and the rapid expansion of our bilateral trade and other economic ties over the last four decades have been the leading elements in that story. It is no accident that Japan and Australia together have been at the forefront of every important initiative in regional cooperation over the last three decades or so.

Japan remains Australia's largest export market, taking US\$12.3 billion or 23 per cent of our merchandise exports in 1995 and US\$3.5 billion or 25 per cent of our services exports in 1994. But the growth of the other East Asian economies is driving a huge restructuring in Australia's trade relations with East Asia so that East Asian industrialising economies' share in Australia's exports has risen from 19 per cent in 1985 to 36 per cent in 1995 while Japan's share has fallen, from a peak of 29 per cent in 1991.

East Asian Dimension

Australia sends more of the growth in its exports to the countries of East Asia than does any other country in the world, including any in East Asia itself. In the decade between 1985 and

1995, US\$20.8 billion of the US\$26.9 billion increase in Australia's exports (or 77 per cent) went to East Asia. In Asia and the Pacific, this was well ahead of Indonesia (ranked next at 61.7 per cent), Japan (61.0 per cent) or Malaysia (54.8 per cent).

By this measure Australia is the most East Asian-oriented economy in the world in the pattern of its trade growth.

Australia and Japan both have deep economic interests in East Asia and in Asia Pacific economic cooperation and we have worked effectively together to develop a framework within which those interests can be pursued.

Of course, as in the case of Japan's international and East Asian economic links, the quality of, and gains from, Australia's interactions with the Asia Pacific region depend upon the strength of the domestic economy and success with our own programs of economic reform and fiscal discipline.

The new government in Australia is well placed to build upon the achievements of the last decade or so, with circuit-breakers through fiscal and labour market reform.

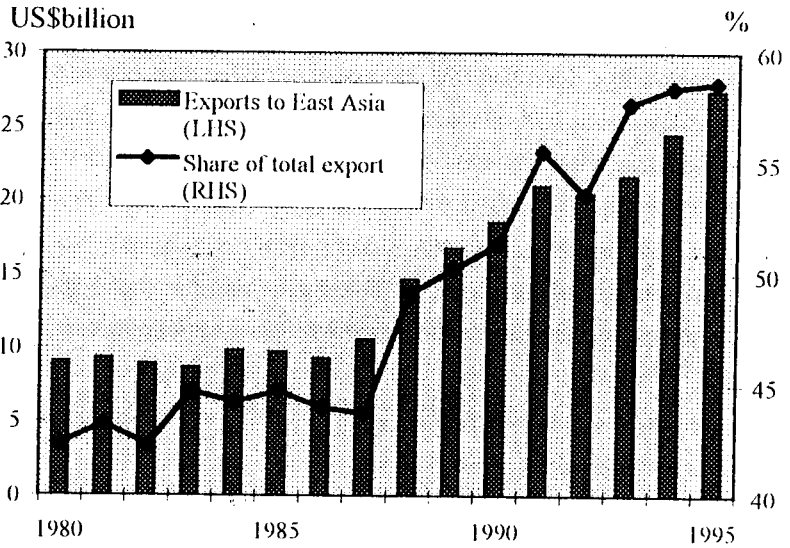
But how well has Australia done in East Asian markets in the wake of the reforms undertaken already, over the past decade?

Total exports to East Asia more than doubled between 1985 and 1995, as Figure 1 reveals. Manufactured goods exports more than quadrupled and the share of East Asia in Australia's total exports jumped from 45 per cent to 59 per cent in just ten years. Over the same period, exports to Japan also more than doubled, from US\$5.7 billion to US\$12.3 billion, although Japan's share in Australia's exports fell from 26 per cent to 23 per cent, as Figure 2 reveals.

But looked at from another perspective, Australia's record in the East Asian and Japanese markets does not look so good.

Figures 3 and 4 set out this other perspective. While total East Asian imports have grown sharply since the mid 1980s, Australia's share in East Asia's imports has in fact fallen significantly, from 4.1 per cent in 1985 to an estimated 2.6 per cent in 1995. While Australia's market share has not contracted evenly in all East Asian markets, the weakness appears widespread. In Australia's largest East Asian market, Australia's share of Japanese exports fell from 5.7 per cent in 1985 to 4.3 per cent in 1995 (Figure 4).

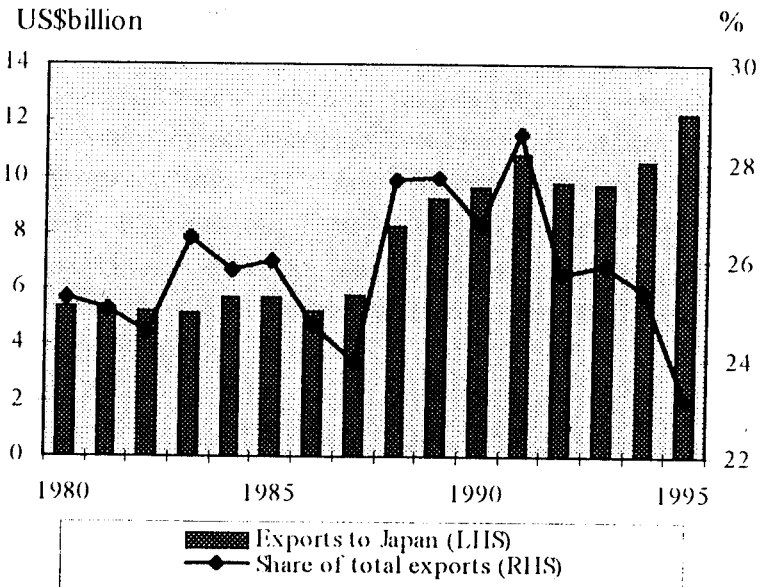
**Figure 1 Australia's exports to East Asia and their share of total exports
1980-1995**



Note: East Asia includes ASEAN, Japan, China, Korea, Taiwan, Hong Kong, Cambodia, Laos and Vietnam. Data for 1995 are IEDB estimates.

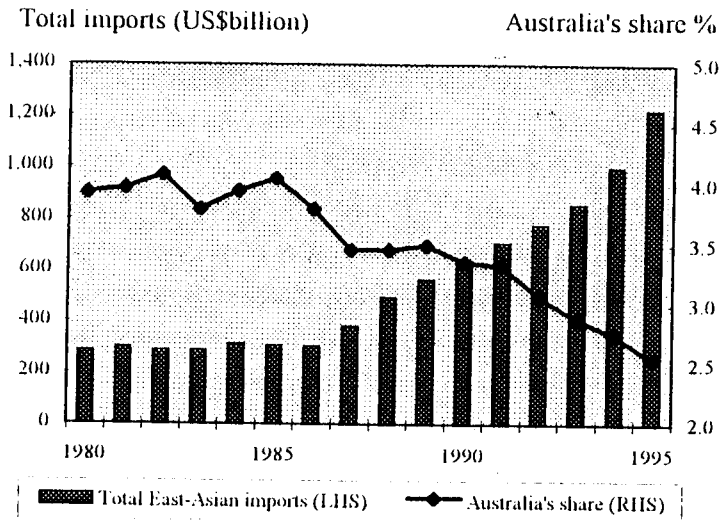
Source: UN trade data, International Economic Databank, The Australian National University.

**Figure 2 Australia's exports to Japan and their share of total exports
1980-1995**



Source: UN trade data, International Economic Databank, The Australian National University.

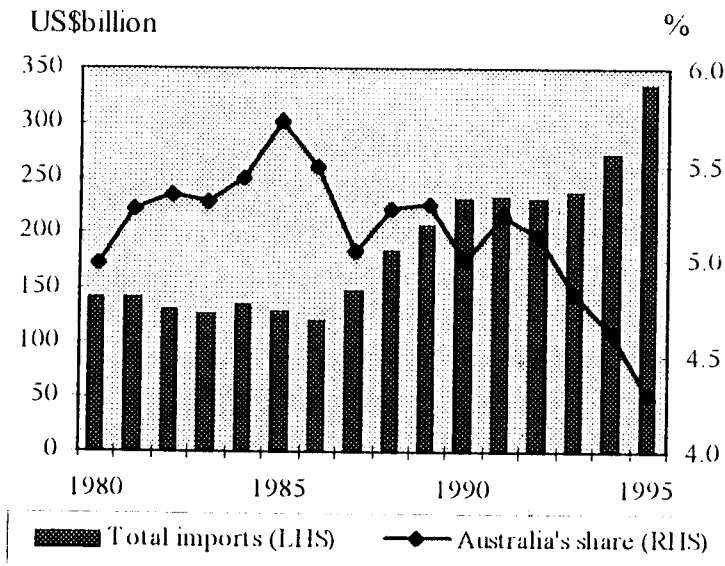
**Figure 3 Total East Asian imports and Australia's share in East Asian imports
1980-1995**



Note: Data for 1995 are IEDB estimates.

Source: UN trade data, International Economic Databank, The Australian National University.

**Figure 4 Total Japanese imports and Australia's share in Japanese imports
1980-1995**



Note: Data for 1995 are IEDB estimates.

Source: UN trade data, International Economic Databank, The Australian National University.

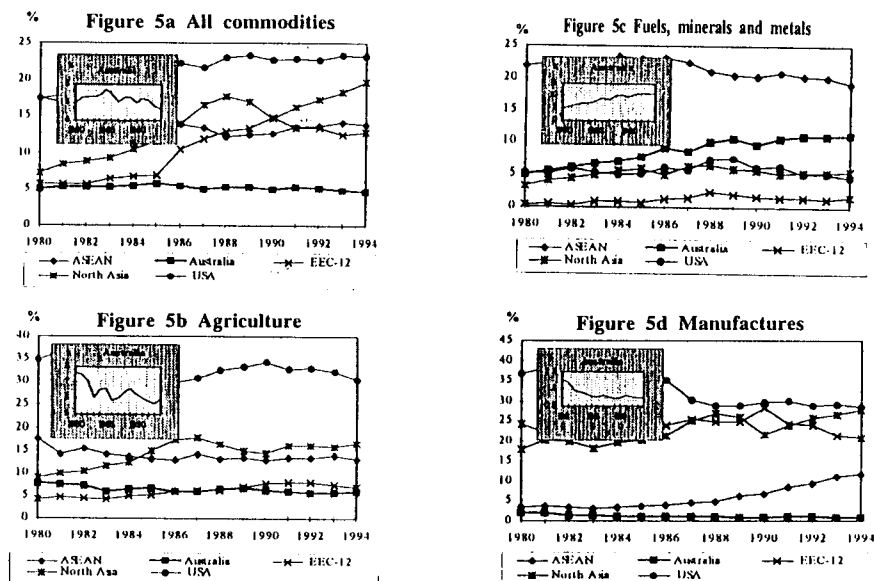
Challenge of Reform

If market share is declining in Japan and East Asia - the world's fastest growing market - where are the benefits from the pain of Australia's liberalisation and economic reform? Is declining market share a consequence of Australia's declining competitiveness in these markets or has the geographic or commodity structure of the East Asian market changed in ways that are particularly disadvantageous to Australian exporters?

My colleague, Dr Weiguo Lu, and I have done some quite detailed analysis of Australia's changing share of East Asian markets to try to answer these questions. The answer is not simple but, in brief, all three factors have affected Australia's performance - with Australia being particularly disadvantaged by the commodity structure of trade growth in Japan and other East Asian markets over the last decade or so. Competitiveness improved strongly in some markets - especially minerals and fuels in the Japanese and other East Asian markets - mainly in the second half of the 1980s when the economic reforms had their principal effect.

Figure 5 provides a summary picture of performance in the Japanese market for agricultural goods, minerals and fuels, and manufactures. Only in minerals and fuels did market share increase, although the decline in agriculture was more a product of adverse shifts in the commodity structure of trade than in competitiveness. In manufactures, despite the strong growth of exports, market share and competitiveness declined in some of the most important items.

Figure 5 Various countries and regions' shares of Japanese imports (per cent)



Source: UN trade data, International Economic Databank, The Australian National University.

Table 1 summarises a detailed analysis of the effects of changing commodity structure and competitiveness on Australia's performance in the Japanese markets for these three broad commodity groups. Table 1 also reports the experience of Japan's other trading partners in this period. Australian competitiveness improved strongly in minerals and fuels, and modestly in agriculture, but fell in manufactures.

Table 1 Constant Market Share Analysis of Australia's Export Performance in Japan 1985-1994 (in broad commodity categories) US\$Million

Sources of change in exports	Australia	USA	Canada	EU	ASEAN	North Asia
Increase in exports	5,263 (100)	37,367 (100)	4,164 (100)	26,183 (100)	17,619 (100)	39,075 (100)
Due to:						
Trade expansion	8,297 (157.6)	29,394 (78.7)	5,345 (128.4)	10,048 (38.4)	22,933 (130.2)	16,723 (42.8)
Commodity composition effect	-4,144 (-78.7)	20,244 (54.2)	-148 (-3.6)	18,951 (72.4)	-14,407 (-81.8)	18,669 (47.8)
Competitiveness effect	1,110 (21.1)	-12,271 (-32.8)	-1,033 (-24.8)	-2,816 (-10.8)	9,093 (51.6)	3,683 (9.4)
of which						
agriculture	(25.4)	(8.7)	(-13.1)	(-22.6)	(-8.6)	(-15.9)
minerals and fuels	(107.7)	(-10.8)	(-55.5)	(2.4)	(-18.9)	(0.0)
manufactures	(-33.1)	(-97.8)	(-31.2)	(-79.8)	(127.5)	(115.9)

Notes: 1) Figures in parentheses represent percentage contributions.

2) This analysis is undertaken at a highly disaggregated level (the UN SITC 3 digit level) for each broad commodity group so that the effect of changes in the commodity structure relates to individual commodity categories rather than changes between these three broad commodity groups. The results presented in the table summarise this highly disaggregated analysis.

The point to be underlined here is simply that Australia continues to face a huge challenge in reform and restructuring in order to capitalise on the opportunities from integration in the East Asian market. This involves intense economic pressure, but no less intense political pressure. Any weakening of political resolve would endanger the success of Australia's ambitions for integration with the East Asian economy.

These dangers are present in different forms. One danger is that Australia's political leaders will lose confidence in the process of integration if there are no clear signs that our major regional partners, like Japan, are equally engaged. The litmus test here will be early indication that over time Japan is prepared to commit to deeper agricultural trade liberalisation. It is essential to understand this aspect of the politics of economic and trade reform in Australia.

A danger of a different kind is that Japanese and other investors in Australia might conspire

to slow the process of tariff liberalisation because their direct, short-term interests are affected by import competition. The threat of Korean competition to established Japanese and American producers of automobiles in the Australian market, for example, might induce political pressures of this kind.

There is some evidence of both kinds of danger. Were they to become a serious threat they would certainly damage central and strategic interests in the relationship - encouraging a retreat from efficient and reliable delivery of key raw materials and energy supplies to the Japanese and other East Asian markets, and vastly complicating our efforts at Asia Pacific economic cooperation.

Over the past decade or so, economic reform and trade liberalisation liberated Australian foreign economic policy. They enabled Australia to play an enhanced role in multilateral trade negotiations. They also encouraged the search for and promotion of effective mechanisms for Asia Pacific economic cooperation in concert with Japan.

Why does APEC matter?

Over the next two decades East Asia's share of world output and world trade will continue to grow inexorably approaching the shares of North America and Europe, the established centres of world economic power.

Even over the last decade, East Asian and Western Pacific economies absorbed three times as much as Europe of the increment in North American exports. They also absorbed over three times as much as North America of the increment in Europe's exports.

The remarkable growth of East Asia is important, then, not only to Australia and Japan but also to the dynamism and health of the world economy. It has global impact and brings with it global interests and responsibilities.

Asia Pacific Agenda

These interests and responsibilities are reflected in the emergence of APEC and its agenda for regional trade and investment liberalisation - and its support of the multilateral trading system.

A new paradigm has emerged in APEC as the organising idea for regional trade liberalisation, and potentially for the multilateral trading system - the idea of open regionalism, which seeks to promote liberalisation and economic cooperation without discrimination against the rest of the world and unilateral liberalisation of trade, encouraged by competition among peers.

This is the APEC formula. It is a very much founded upon the principles enunciated between the Bogor and Osaka APEC summits, and the work Australians and Japanese have

done together over many years in developing strategies for making Asia Pacific economic cooperation work - making it practical. APEC helps to secure our future in the East Asian and Pacific economy by encouraging confidence in broadening participation across the region in economic reform and liberalisation and accommodating new partners, like China, in the international trading system.

There are three issues of importance here.

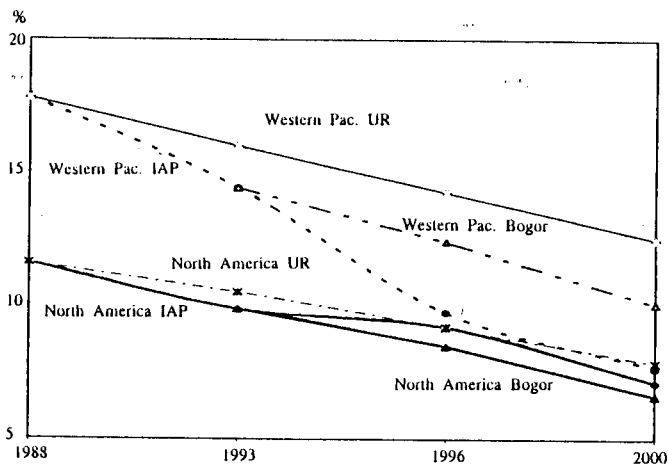
First, there is the issue of the credibility of the APEC process - whether it can deliver trade and investment liberalisation in Asia and the Pacific without the discipline of tough negotiation and bargaining.

My judgment is that the APEC process will in fact accelerate liberalisation in the region, particularly over the next five to ten years. Negotiating liberalisation on a regionally or multilaterally reciprocated basis would delay liberalisation and stall the APEC process. At the same time, there will need to be strengthened consultation and active jostling among core APEC members to advance unilateral liberalisation on schedule.

Many in Japan and elsewhere were either sceptical or relaxed about what could be achieved through the Individual Action Plans of APEC members in Manila. As Figure 6 makes clear, the progress at Manila was impressive. Western Pacific economies are ahead of the Bogor schedule in their commitments to tariff liberalisation to the year 2000. By that date, Western Pacific average tariffs will be down to around North American levels.

Yet Japan - having set the agenda in Osaka - was hardly at the forefront of progress in 1996. This is a worry. That is not to say there are no other worries, such as how to deepen the United States' commitment to the APEC agenda. But APEC is so central, not only to Japan's economic

Figure 6 APEC commitment to tariff liberalisation, Manila 1996



Source: PECC Report on APEC Individual Action Plans, 1996.

but also to her political security agenda for the future, that failure to take a leading role in leadership of trade liberalisation and economic reform undermines the broader objectives both our countries seek to achieve in Asia and the Pacific.

Beyond 2000, linking the APEC process to the WTO and developing an agenda for negotiation on a multilateral basis will be important. Signalling a preparedness to negotiate the more difficult 'islands of protection' in a way that satisfies everyone that a contribution is being made to liberalisation by all sides will be the first step. The first ministerial meeting of the WTO in Singapore last December laid a basis for taking this step.

Second, there is the issue of China. There has been what can at best be described as a drift in the Australian relationship with China. Australia needs to continue to address this problem since it will inevitably affect how we are positioned in our other important relationships in the region - including that with Japan and the United States. There are positive signs that the Australian political leadership is now focused on this problem but there is much ground to catch up.

Finally, something of a *de facto* EAEC has emerged at the Asian end of the Europe and East Asia dialogues. An East Asian perspective in opposition to some earlier North American support for a discriminatory free trade area in Asia and the Pacific has also been influential in discussions of the Asia Pacific economic cooperation agenda. Australia shares these interests and perspectives and would sensibly welcome the opportunity to join these dialogues. Japan has been a staunch supporter of Australia's participation. Failure to succeed in this diplomatic endeavour would be a rebuff of Australia's desire for full partnership in East Asia with uncertain consequences.

Nature of the Asia Pacific Community

Open regionalism has both an economic and a political dimension: in economic terms there is the primacy of equal treatment in trade and other economic transactions; in political terms it involves active cooperation among a plurality of economic, political and cultural systems and the accommodation of new players in a huge process of economic, social and political reform.

This brings me to the second area.

Our interests in such an Asia Pacific community of nations - with cultural and ethnic as well as economic and political diversity - can only be sustained and secured if we are exemplars of principles that respect different cultural traditions within each of our own societies. This is a difficult and sensitive challenge for political leadership in both our countries. But any leadership which fails to meet the challenge, challenges in turn the very basis of its participation in the

Asia Pacific community. We have had our successes in both countries, in the transformation of political and social attitudes in these respects. Australia is a vibrant multicultural society and cannot let pass any challenge to the values that sustain it, in political discourse at home or its dealings abroad. We have also had our failures. We shall continue to need each other's understanding and support on these matters of social development. We also have much to do together, particularly with our Southeast Asian neighbours, in articulating the principles - a charter if you like - which might guide the confident development of cooperation among an Asia Pacific community of nations.

Malaysia could play a crucial role in this area for APEC - especially as it hosts the APEC Leaders and Ministerial Meetings in 1998 - in relating our core economic cooperation interests to these political and social goals.

Investing in the Future

Finally, there is the challenge, in both countries, of investing in the next phase of economic and social development.

Until quite recently the Japanese economy was a catching-up industrial economy, combining domestic savings and capital with technology and ideas from abroad to achieve high rates of economic growth and one of the highest standards of living in the world. The reservoir of gains for growth purely from the application of capital with other people's technology is largely exhausted. Despite the recent depreciation of the yen, costs and wages in Japan are high - typical of a rich industrial country. The country has crossed over to a new phase of economic development in which the emphasis must be on the mobilisation of know-how, ideas and technology and in which there has been a surge of outward direct foreign investment in response to this new corporate strategic environment. Research and development and the rationalisation of the industrial structure through deregulation and reform are the major challenges to success in maintaining prosperity, especially given the burden of a rapidly ageing population.

Until quite recently, Australia was largely dependent on its resource base for trade and economic growth. The challenge of the last decade was to mobilise capital, skills and professional capacities, and the research base to establish a new specialisation in the international economy, through the growth of exports of manufactures and services. This is an ongoing challenge.

Among the keys to industrial upgrading, productivity growth and creating a new structure of economic activities are openness in the trade and, particularly, the investment policies we

pursue and continuing success with liberalisation and economic reform. These will encourage larger trade and investment flows and deeper economic integration between our two economies and within the region.

Australia has been a relatively large destination for Japanese foreign direct investment but much of it went into real estate during the second half of the 1980s and early 1990s - the period of the bubble economy in Japan. This experience was salutary both for Japanese investors and for Australians concerned about the productive deployment of domestic and foreign resources to achieve long-term economic and social development goals. This is not to suggest that all real estate-related investment was unproductive and misdirected, but much of it clearly was. In the last few years Japanese investment in manufacturing is beginning to pick up, at least modestly. There is evidence of this in Table 2 which shows that manufacturing investment has risen from less than 10 per cent to over 30 per cent of total Japanese direct investment in Australia. But there are anxieties in Australia that Japanese corporate strategists (except in the motor vehicle industry and some areas of electronics) have not yet fixed on how to position their investments in Australia and how to relate effectively to the natural and human capital resource base and the opportunities they provide for profitable investment. For example, Australia will soon begin to bring on stream capacity for supplying large quantities of semi-processed steel product to East Asia yet, strangely, Japanese investors are playing virtually no part in these developments. At the high technology end, Japanese investment interest in the medical technologies of a major cooperative research centre of which I am a board member is notable for its absence.

Table 2 Japanese direct investment in Australia by sector, fiscal years 1980, 1983-1995
(US\$ million and sectoral share %)

Sectors	1980	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Manufacturing	122 (28.3)	15 (9.0)	29 (27.2)	12 (2.6)	123 (14.0)	253 (20.7)	210 (8.7)	160 (3.8)	361 (9.8)	3443 (13.5)	225 (10.4)	712 (37.4)	628 (49.7)	799 (30.3)
Mining and agriculture	229 (53.1)	53 (3139)	5 (4.4)	25 (5.3)	195 (22.1)	116 (9.5)	186 (7.7)	516 (12.1)	769 (21.0)	281 (11.0)	223 (10.4)	302 (15.9)	123 (9.7)	392 (14.9)
Banking and insurance	11 (2.6)	2 (1.2)	9 (8.1)	244 (52.2)	92 (10.4)	208 (17.0)	363 (14.1)	545 (12.8)	200 (5.5)	72 (2.8)	63 (2.9)	38 (2.0)	120 (9.5)	129 (4.9)
Real estate	0 (0.0)	2 (1.2)	6 (5.4)	57 (12.1)	127 (14.4)	411 (33.6)	1270 (52.6)	1623 (38.1)	1333 (36.3)	1255 (49.2)	1272 (59.1)	540 (28.4)	143 (11.3)	744 (28.2)
Commerce	53 (12.3)	88 (53.0)	27 (25.7)	58 (12.3)	77 (8.8)	109 (8.9)	92 (3.8)	296 (7.0)	326 (8.9)	204 (8.0)	187 (8.7)	173 (9.1)	54 (4.3)	321 (12.2)
Other	16 (3.7)	6 (3.6)	31 (29.2)	72 (15.4)	266 (30.2)	125 (10.3)	292 (12.1)	1117 (26.2)	679 (18.5)	394 (15.5)	181 (8.4)	139 (7.3)	197 (15.5)	250 (9.5)
Total	431	166	105	468	881	1,222	2,413	4,256	3,669	2,550	2,150	1,904	1,265	2,635

Note: Japanese fiscal year ends in March.

Source: Ministry of Finance, Japan, Monthly Finance Review, various issues.

This is an emerging issue in the relationship. Japanese corporate focus on China and Southeast Asia as prime destinations for manufacturing investment is understandable and beneficial to Japan, as well as indirectly beneficial to Australia. But there is also unrealised potential in the investment partnership with Australia, both to support bilateral trade and economic growth and new growth and to develop trade opportunities with our partners in East Asia.

Another key to industrial and social transformation is turning the strong intellectual and human capital base we have in both countries to these new tasks.

In Australia we are sensibly directing resources to nurture the research base in our universities and other institutions. A research base is a substantial national resource, a resource that happily becomes more productive the more it is shared with the best and the brightest from Japan and other countries who come to take advantage of it.

The award of the Nobel Prize last year to Peter Doherty and Ralf Zinkernagel for their work at the John Curtin School of Medical Research - the third such Nobel Prize to researchers at the ANU and a record matched by no institution in the region and few elsewhere - underscores the strength of that national resource in our universities and what it can offer through exchanges with Japanese institutions and, importantly, to Japanese corporations as they seek to invest in research and development not only in Japan but anywhere in the world where the capability is strong.

Last year, of the 1300 Japanese students studying in Australia, only 67 were enrolled in Ph.D. programs. In the Economics Division in the Research School of Pacific and Asian Studies at the ANU alone, we have over 300 graduate students from all over the world working on the problems of the East Asian economies and related development issues, between a quarter and a third of whom are writing Ph.D. dissertations - the largest group of young researchers working on the East Asian economy at any institution in the world.

The Australia-Japan Research Centre appropriately hosts most of the Japanese graduate students in economics in Australia. But Japanese graduate students are seriously under-represented in graduate programs in basic science, information science, biological and medical science in all of which fields there is real research strength in Australia.

The other aspect of investment in human capital is Australia's investment in the Japan literacy (in its broadest sense) of the next generation. This has been an important national priority for many years. Both the quantity and the quality of Japan skills in Australia have been elevated greatly, especially over the last decade. Over 200,000 young people are studying Japanese in schools. The survey of Japanese studies at Australian universities, which the Australia-Japan Research Centre is currently undertaking, reveals that 18,000 enrolments, or

the equivalent of around 3000 full time students, are studying Japan courses at over thirty universities around Australia. Enrolments, perhaps surprisingly, have continued to rise through the 1990s and there is no doubt that the quality of training has improved greatly over the last decade. The ANU, for example, now routinely places its four year Japanese program undergraduates for one year in Japanese universities.

The pay-off from such investment has a long gestation period but it is having an impact now, most noticeably through the prominent role that young Australians are beginning to play in business and other professions here in Japan - not only or mainly in Australian business at this point, but in Japanese and other foreign business operations.

Yet in this sphere too there needs to be more husbanding of the resources we have developed and encouragement and guidance for those who are making the investment, making the effort. Without this, young people will be discouraged by a wrong sense of the declining importance of what they are striving at, when precisely the reverse is needed. Without this also the chances to achieve our economic and social development ambitions together and in the region will be much less certain.

In brief, this is a time of great change in the partnership between Japan and Australia, a challenging and exciting time after a period of rich harvest - almost as exciting, I must confess, as it was thirty-two years ago when I first came to Japan.

I commend you for your initiative in organising this symposium. I commend you also for your care about a relationship that matters, not only to Australia and to Japan but to the Asia Pacific community.